Food Safety & the U.S. Beef Industry
The Case for Structural Change

Prepared for

USDA Outlook Forum 2004

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by

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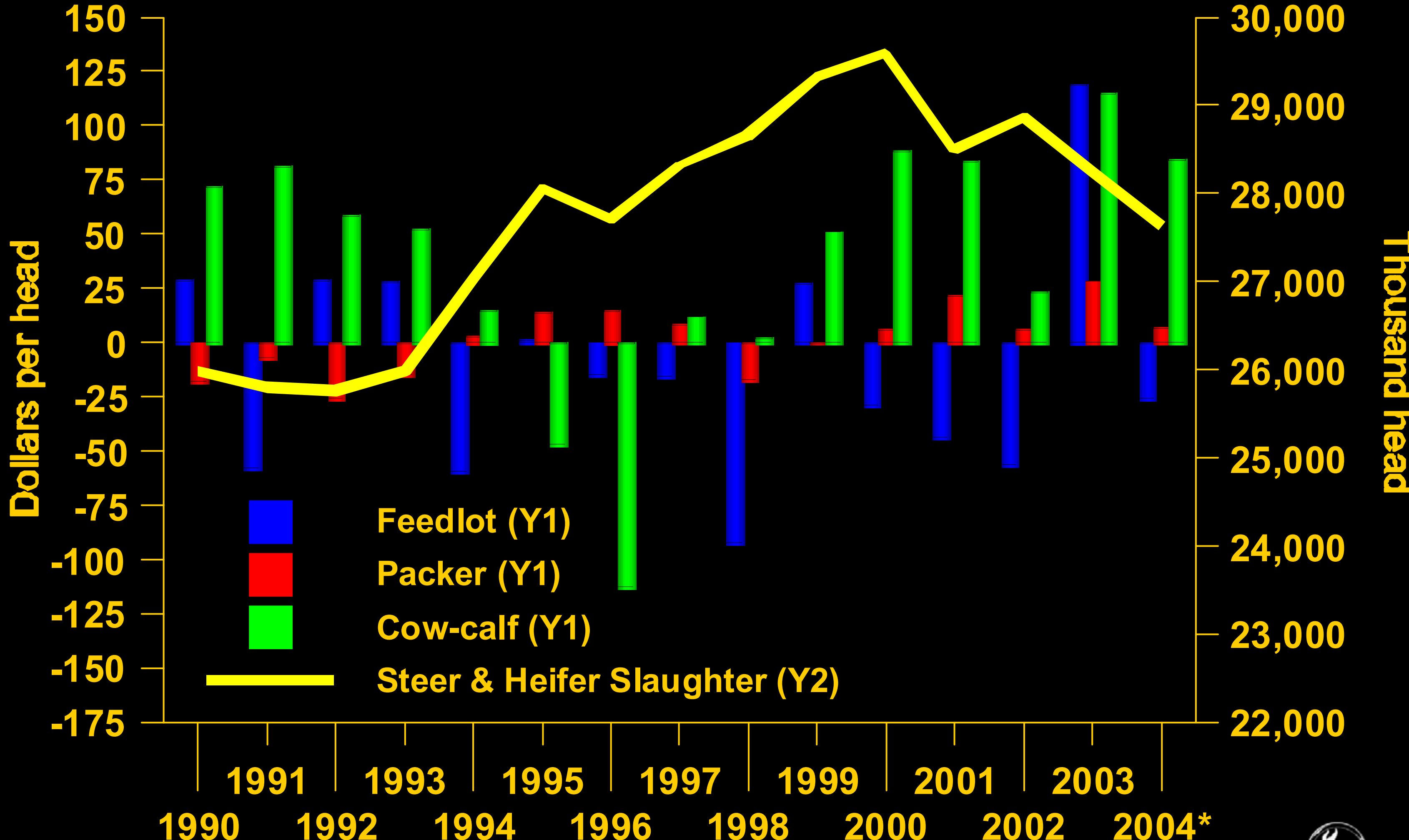
Beef Industry Returns

Feedlot, Packer, & Cow-calf



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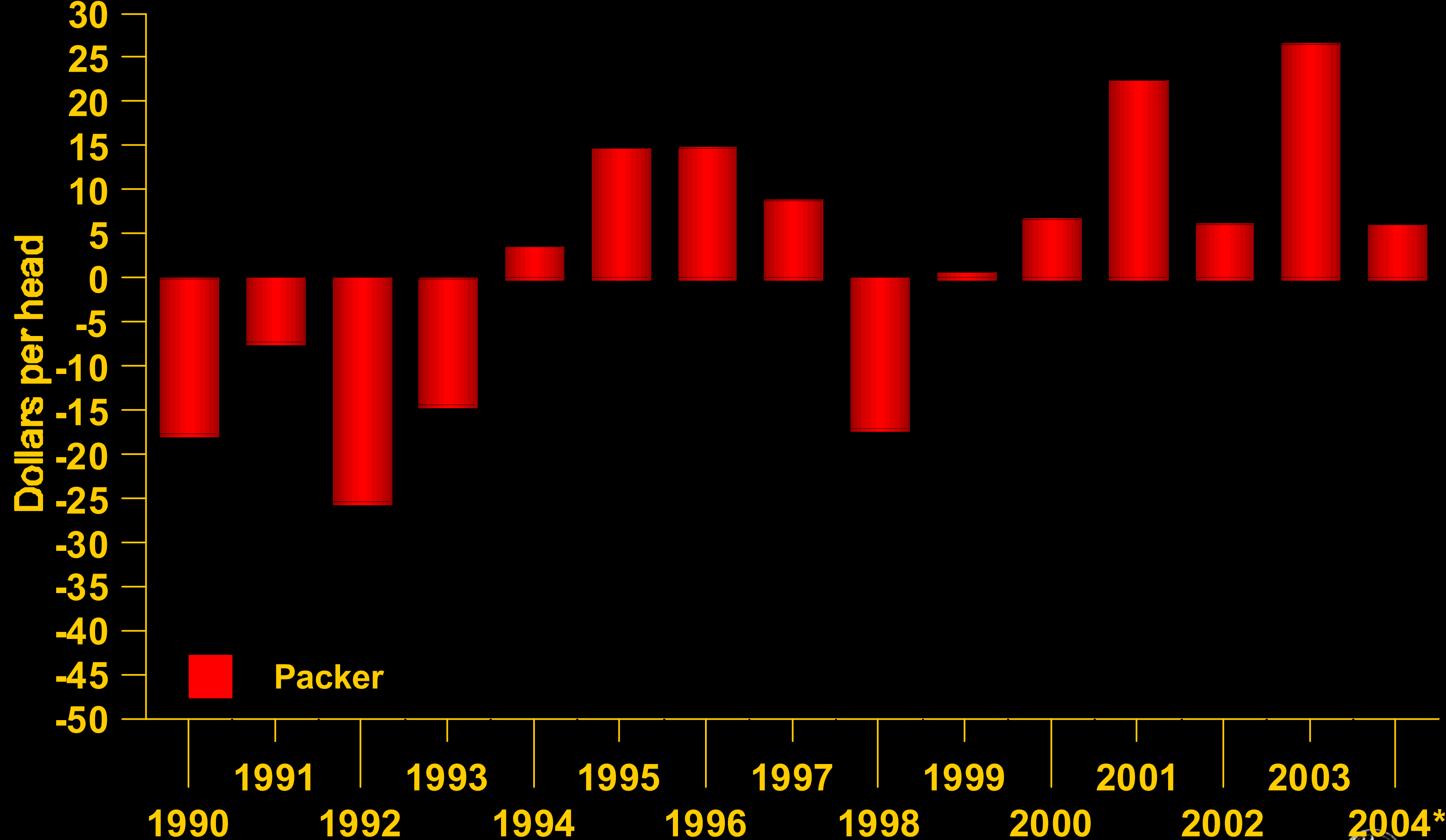
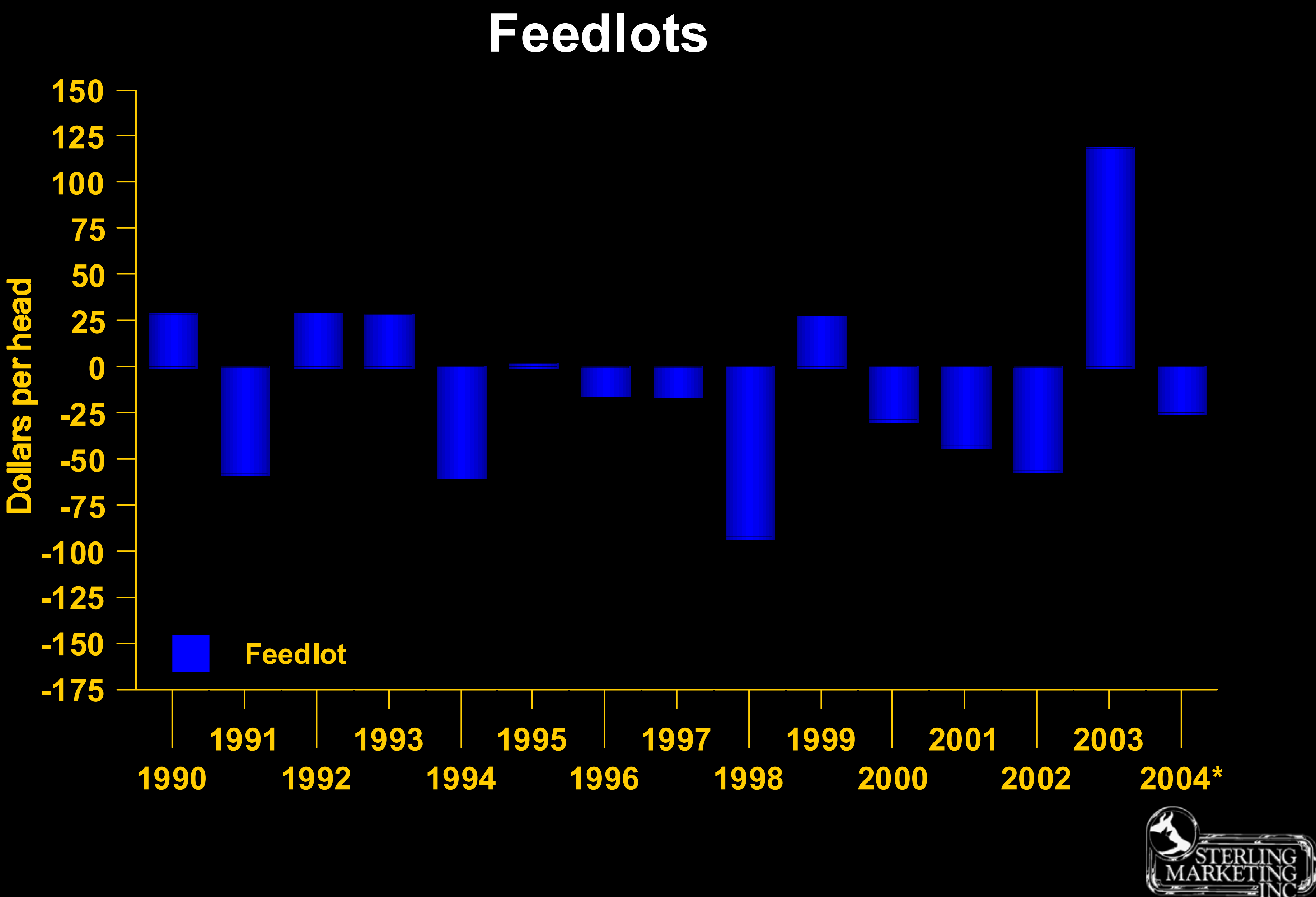
Beef Industry Returns

Fed Cattle Packers

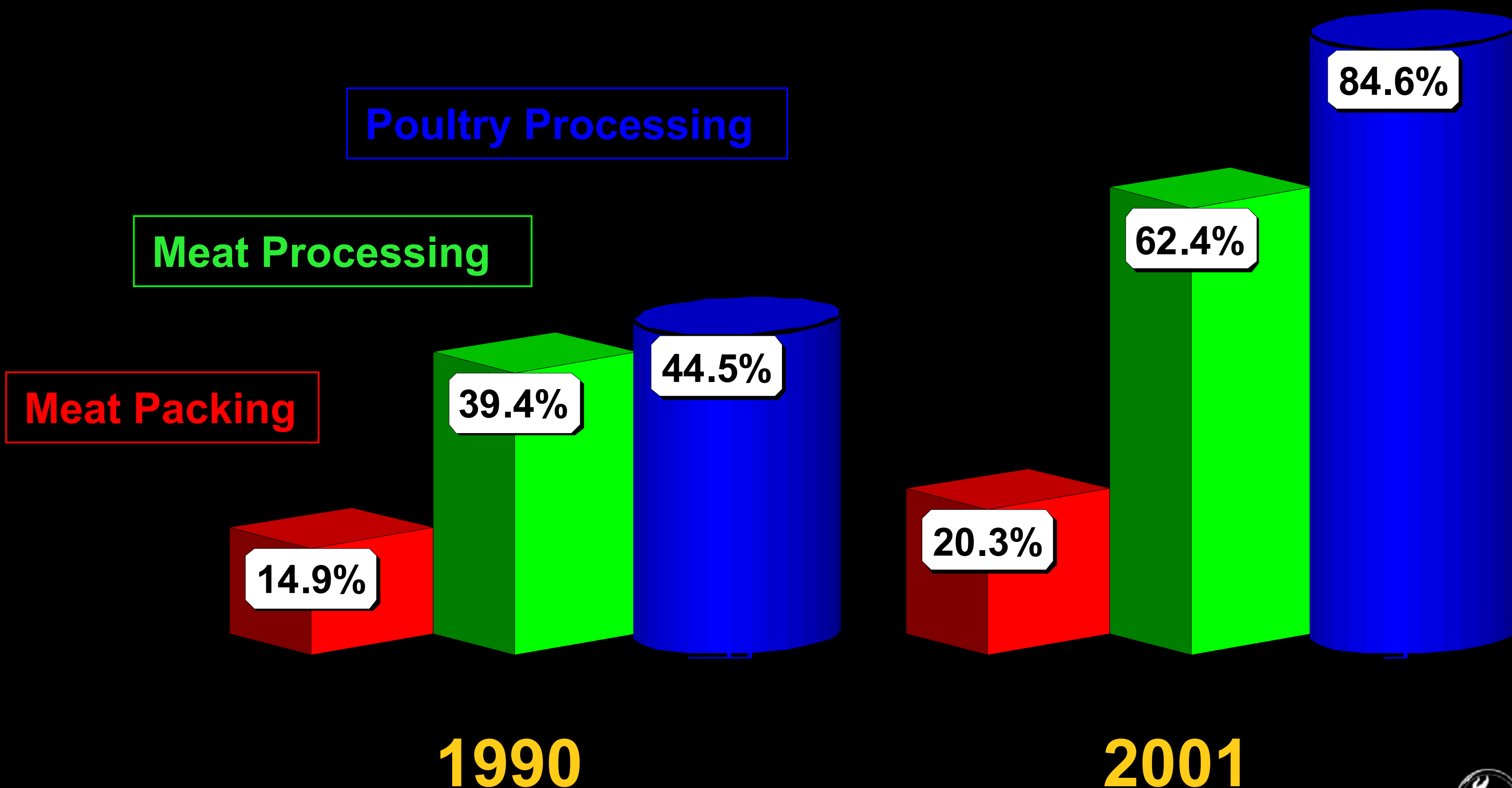


Beef Industry Returns



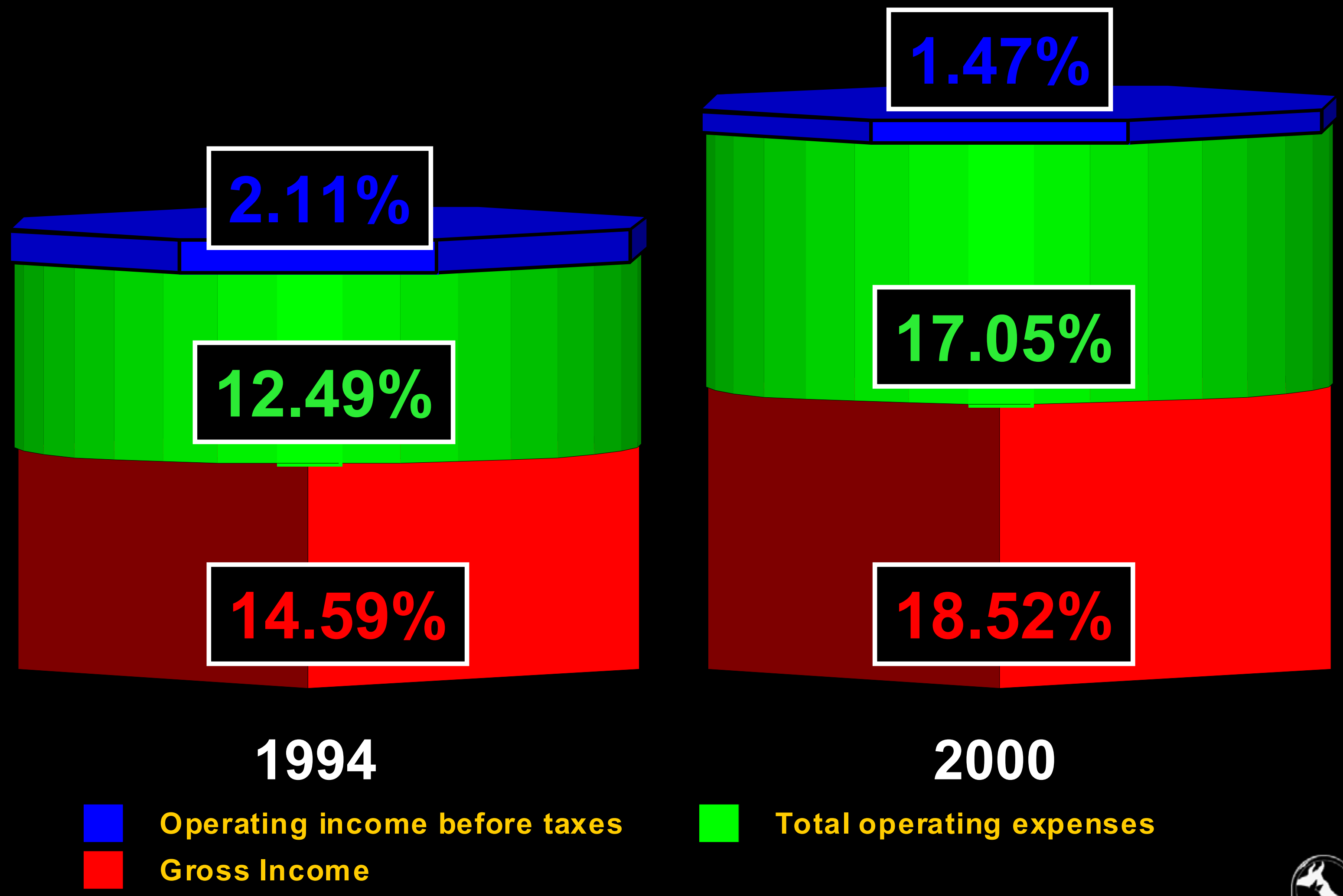
Value Added by Manufacture

Percent of Material Cost

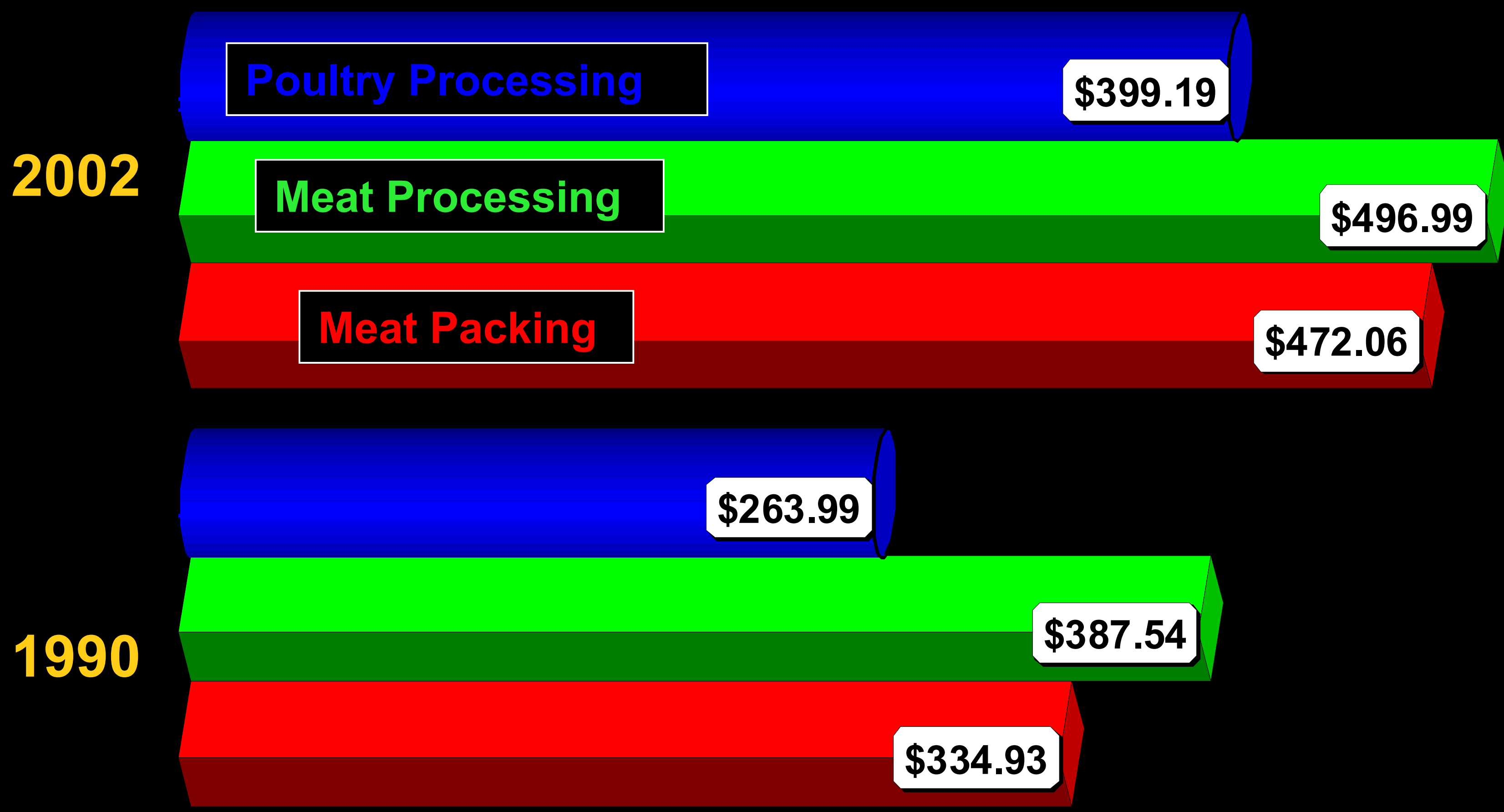


Sales, Expenses, & Operating Income

Pct of Sales - 4 Largest Meat Packers



Average Weekly Earnings



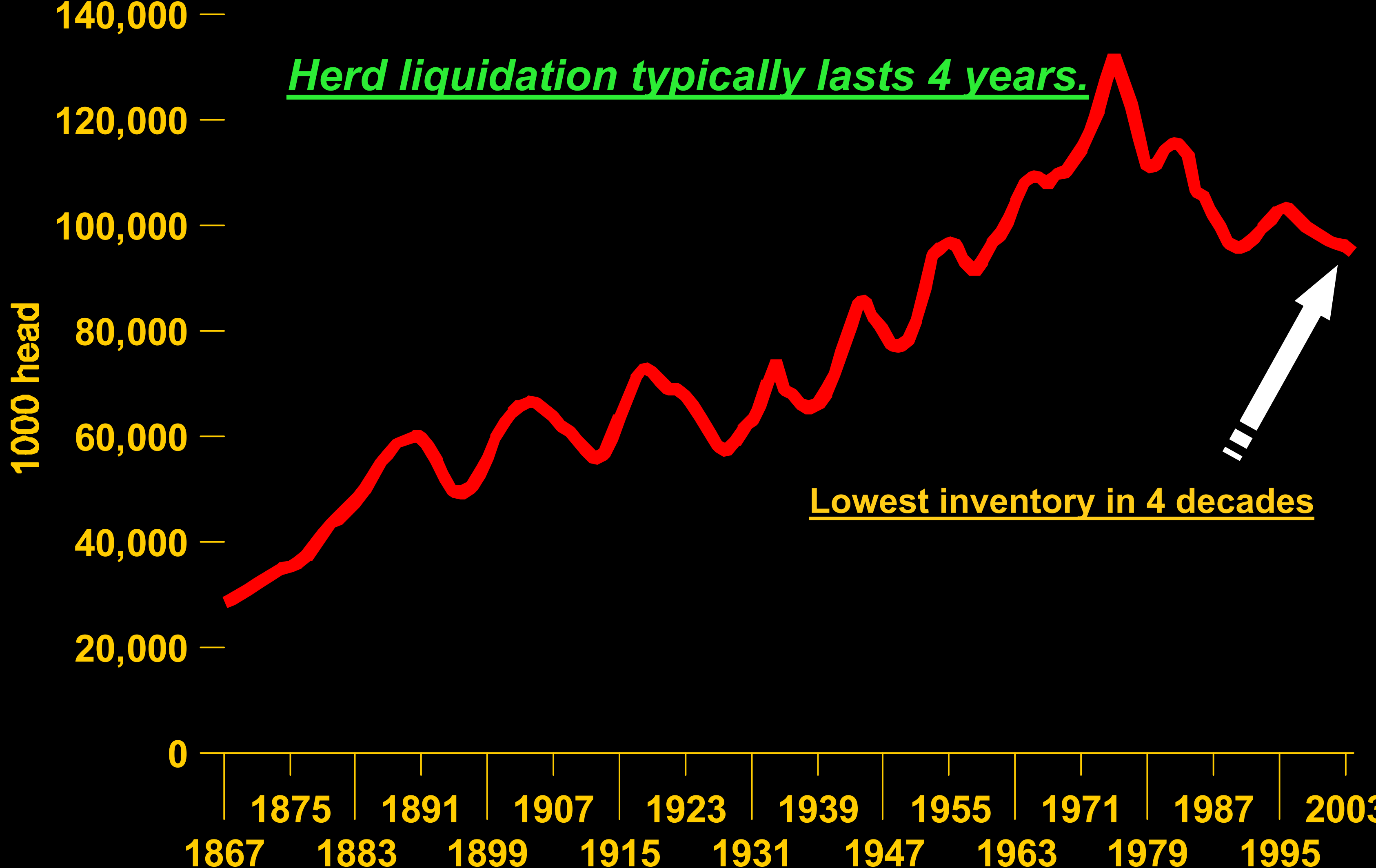
Consolidation is a driving force in the livestock and meat industries.

- Increasing cost of regulation.

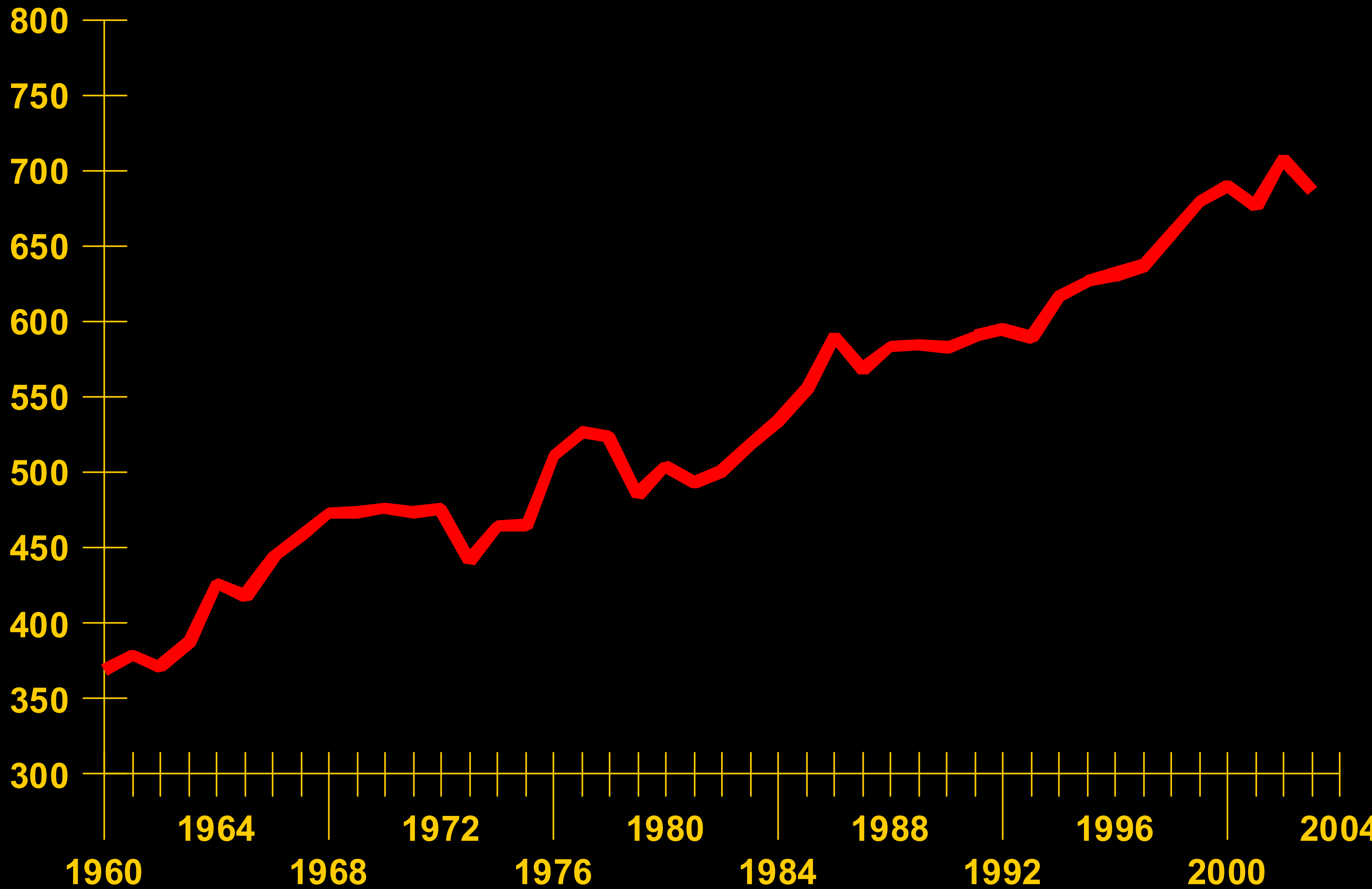
- In addition to higher operating costs, packers have been faced with a declining cattle supply as drought and economics have led to significant herd liquidation.

Cattle producers have liquidated herds

for 8 years due to drought & economics.



Beef Production per Calf

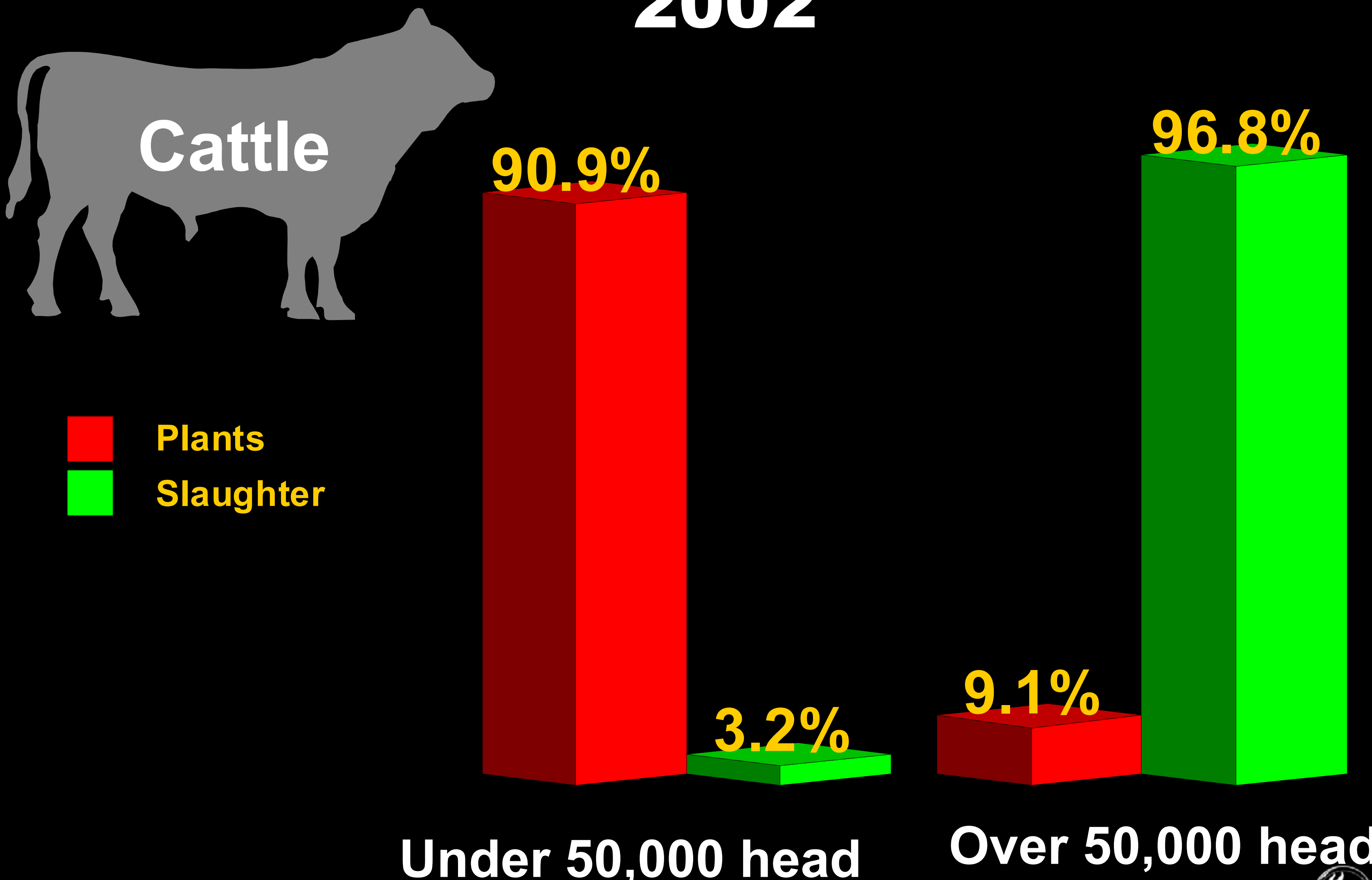


Consolidation is a driving force in the livestock and meat industries.

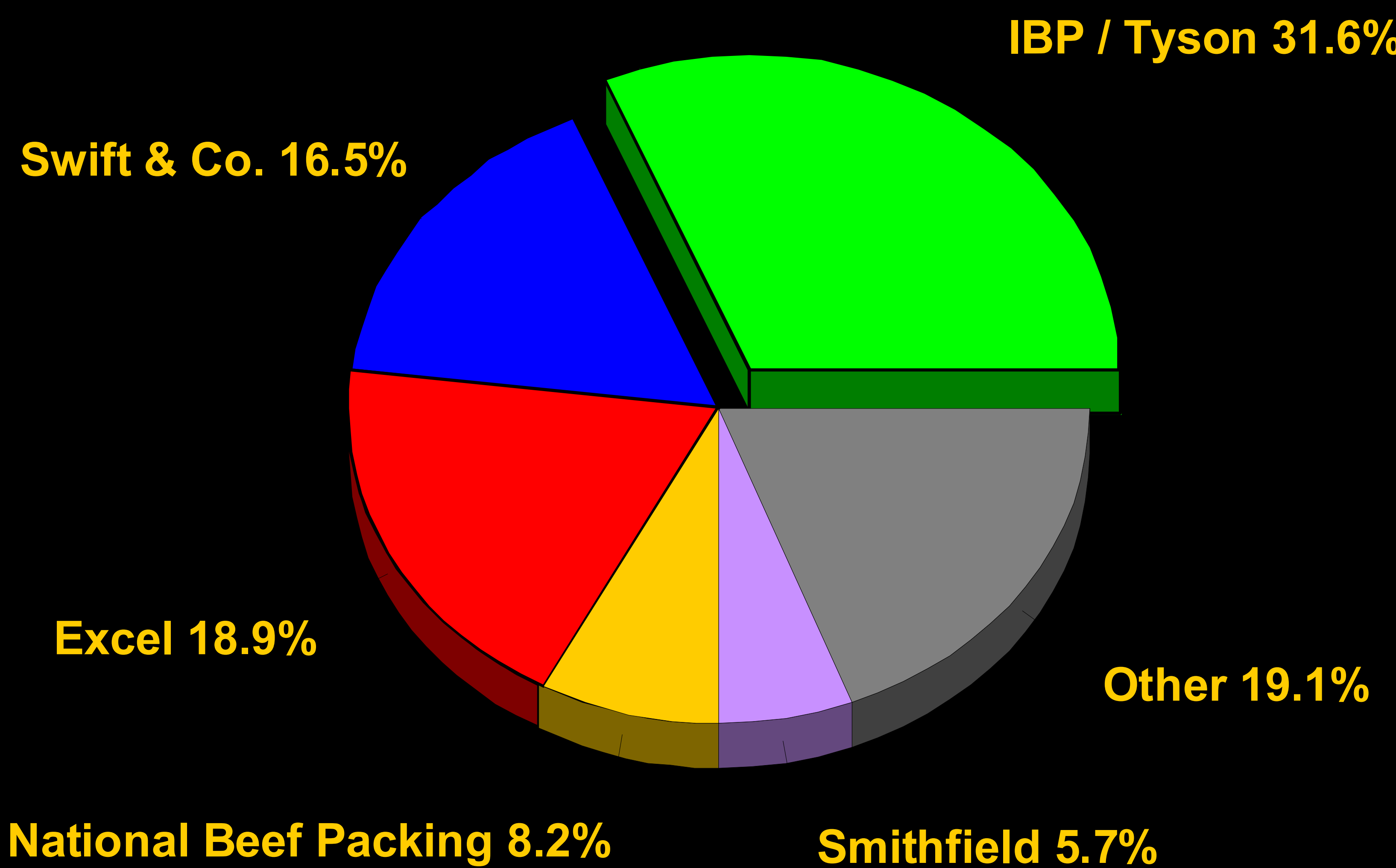
- Added costs generally cannot be “pushed through the market”.
- Consequently, they must be offset through production efficiencies, yields, the value from by-product recovery, or simply “producing more for less”.

Plant Size and Slaughter Share

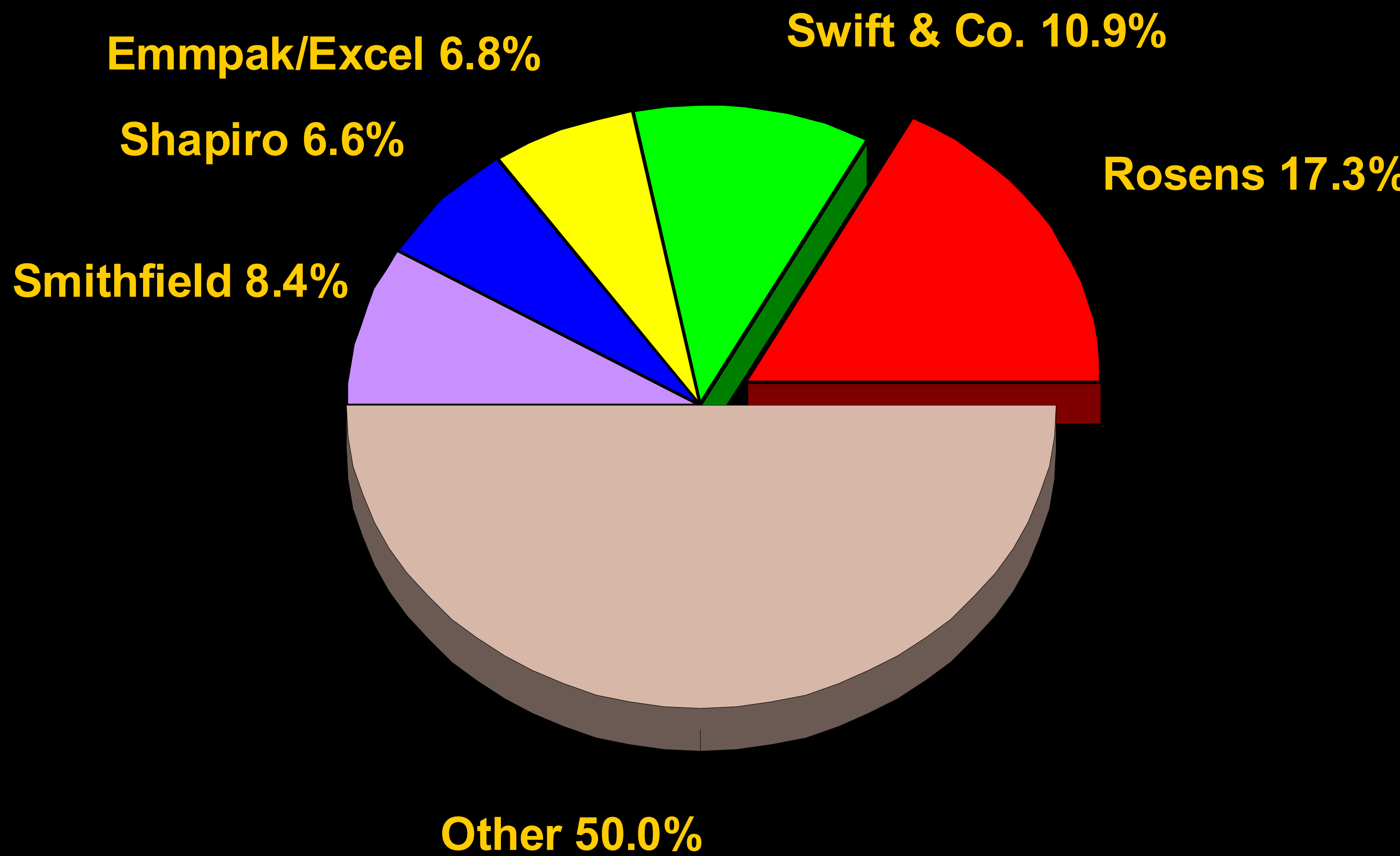
2002



Fed Beef Packer Concentration



Cow Packer Concentration



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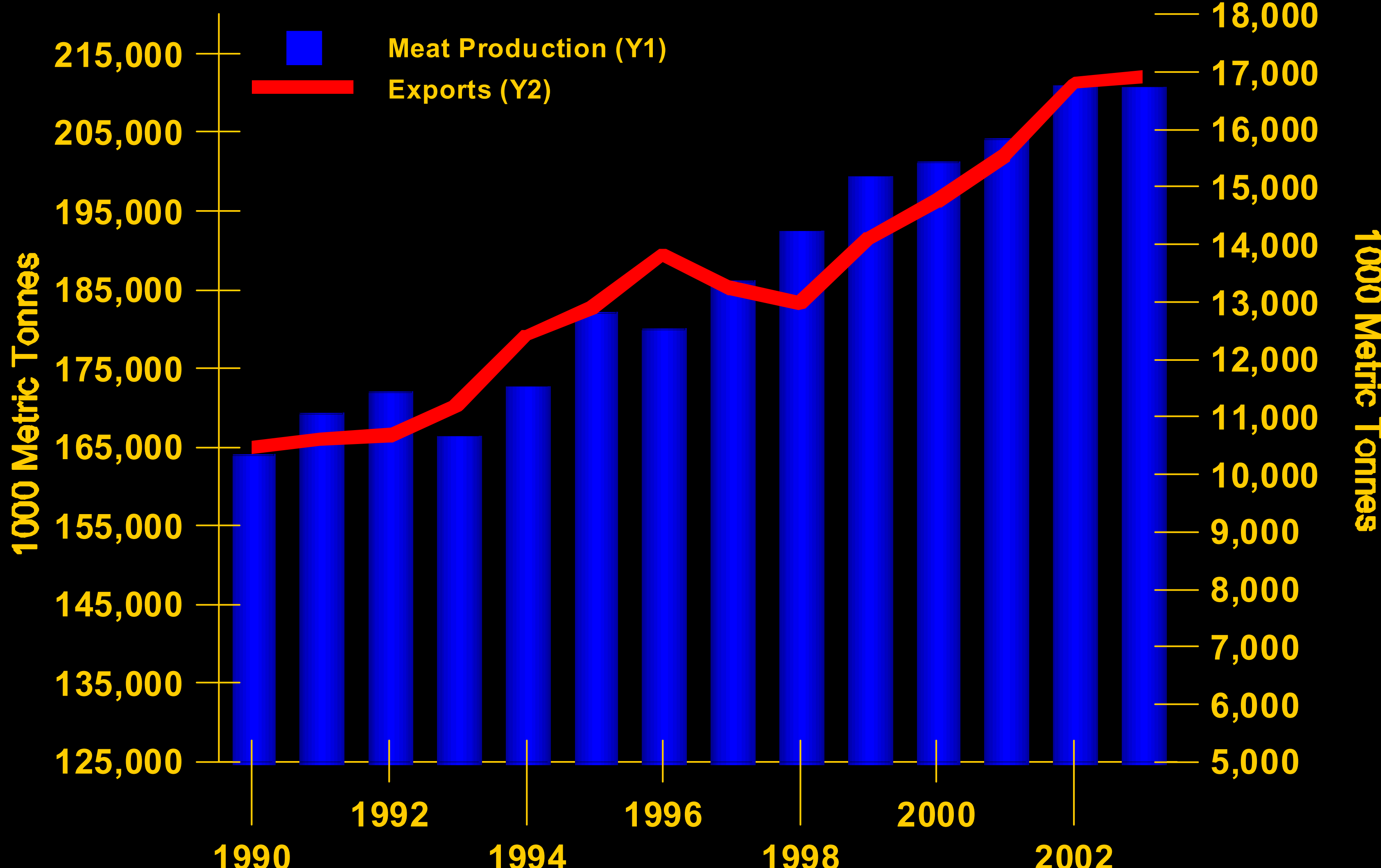
Global Meat Production & Exports



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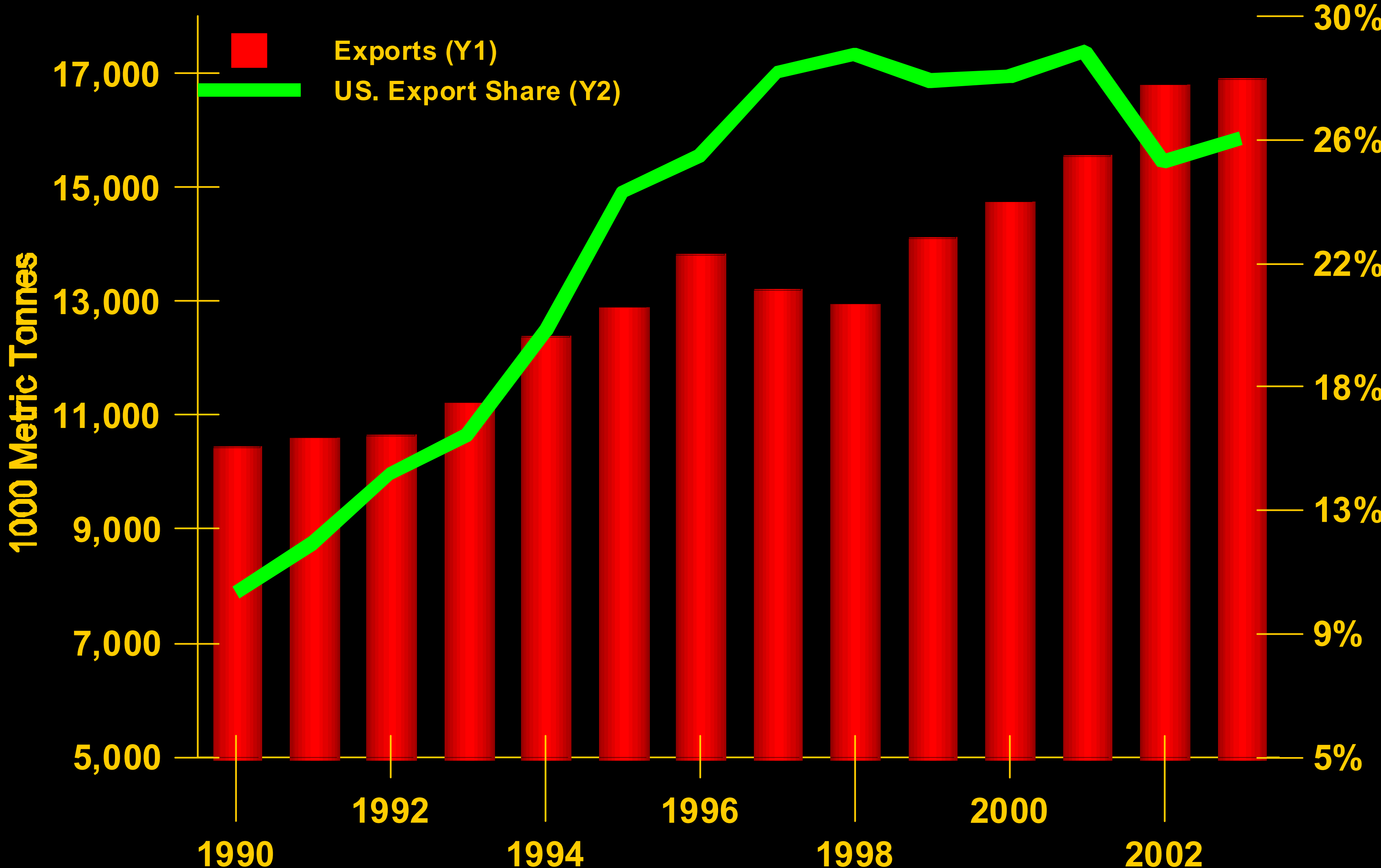
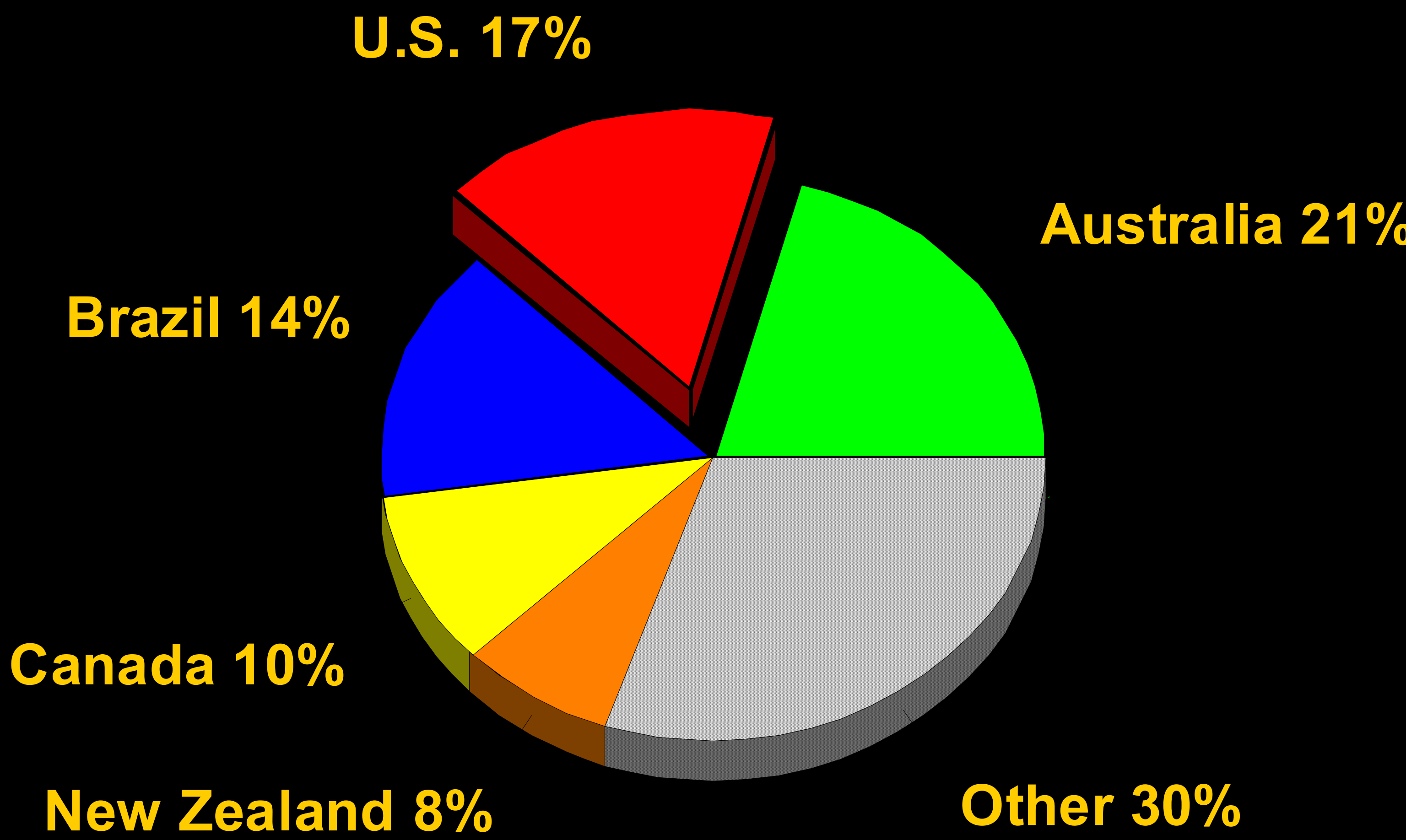
Global Meat Exports & U.S. Share

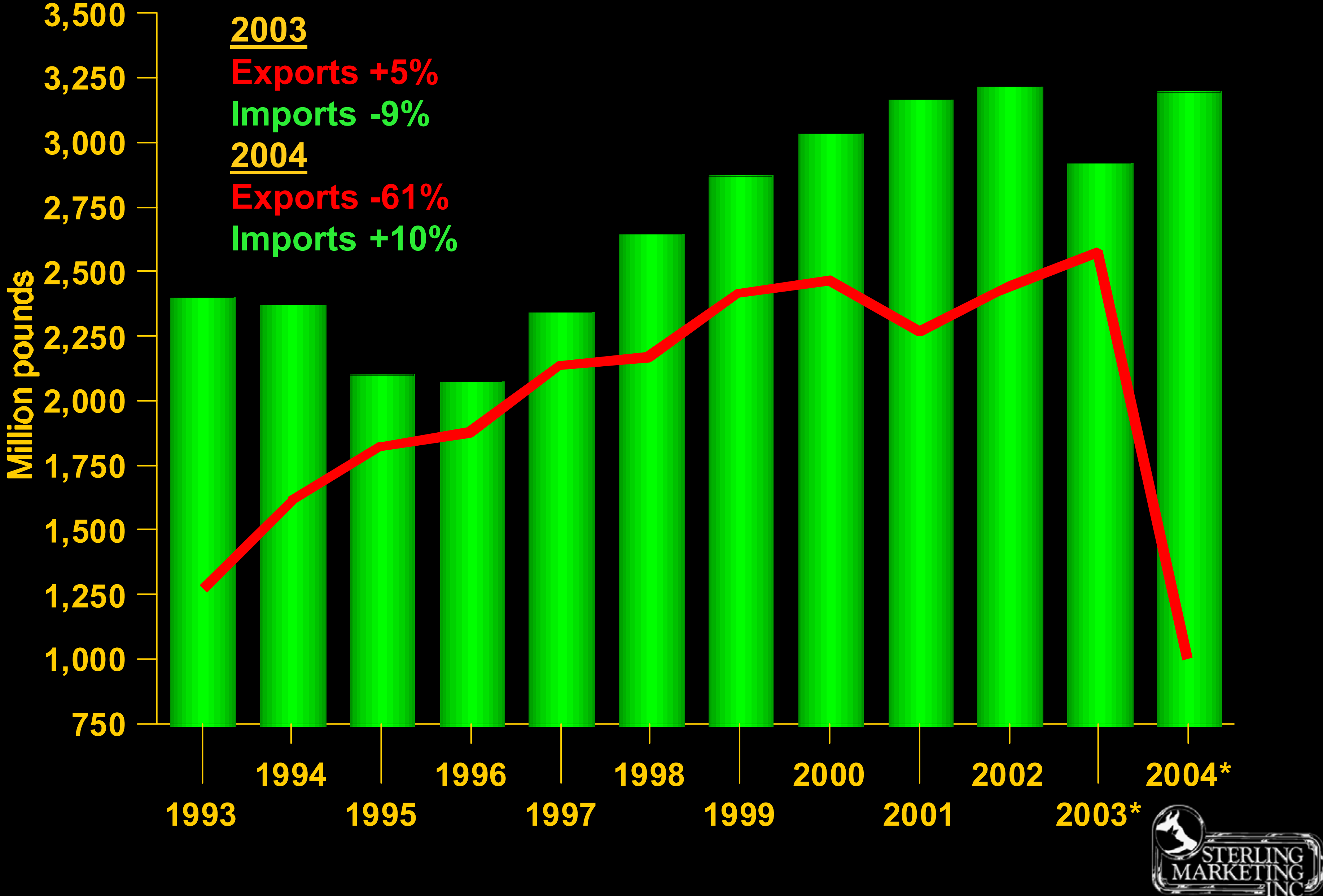


World Beef Export Share

2002

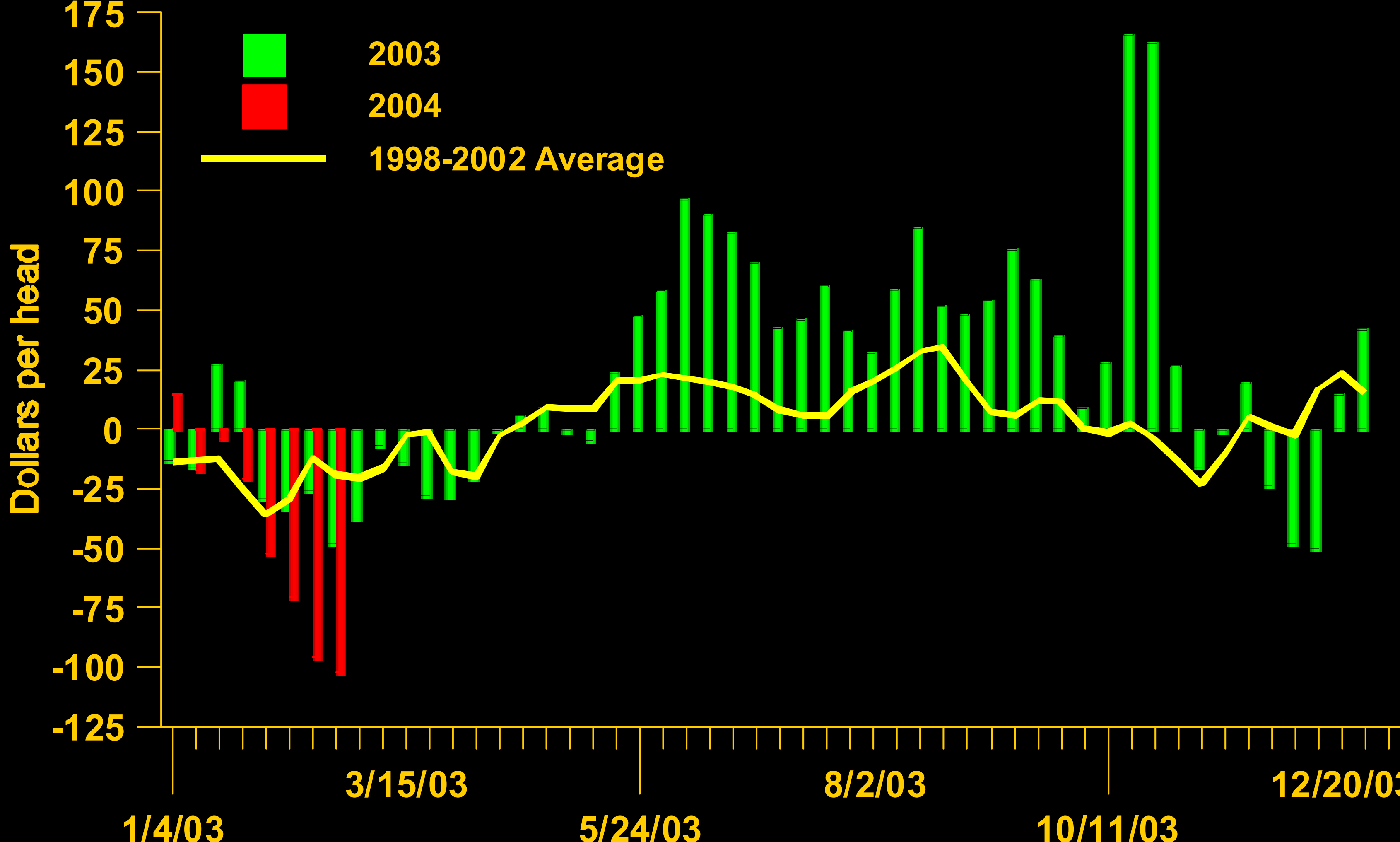


U.S. Beef Trade



Beef Industry Returns

Fed Cattle Packers



The Margin Equation

- Value
  - Domestic
  - Export
  - By Products
- Operating & Fixed Costs
- Capacity & Capacity Utilization

BSE Impact Areas

- REGULATORY
  - Downner animals
  - 30 month age
  - Specified Risk Material (SRM)
  - Automated Meat Recovery (AMR)

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BSE Impact Areas

- REGULATORY

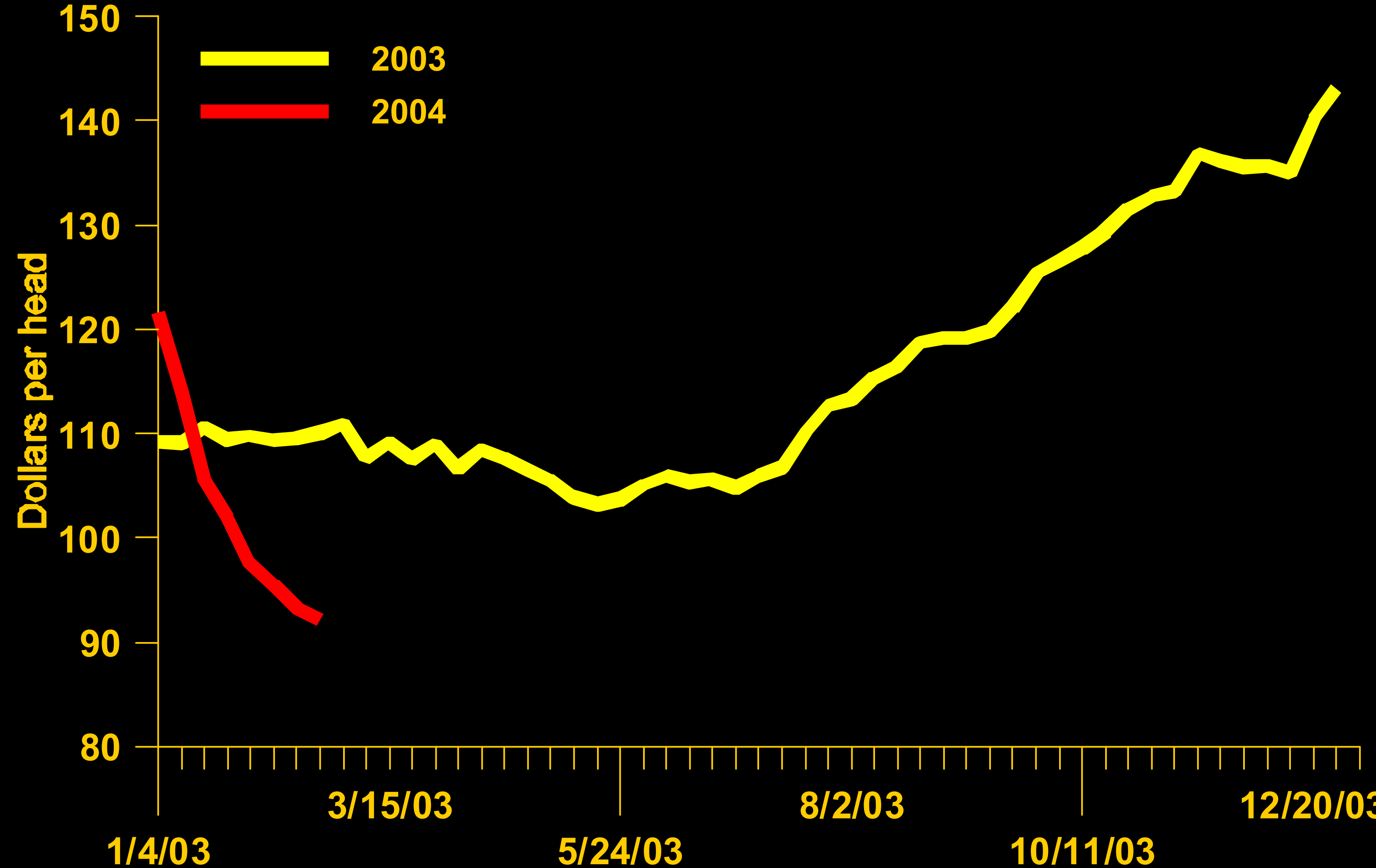
  Higher operating costs

  Rendering value or cost

  Disposal cost for items that cannot be rendered

Beef By-Product Value

Fed Cattle, per head



BSE Impact Areas

- **MARKET**
  - Domestic consumer confidence
  - Export ban
  - Domestic
    - Potential ban on use of various by products in pet food and livestock and poultry feed

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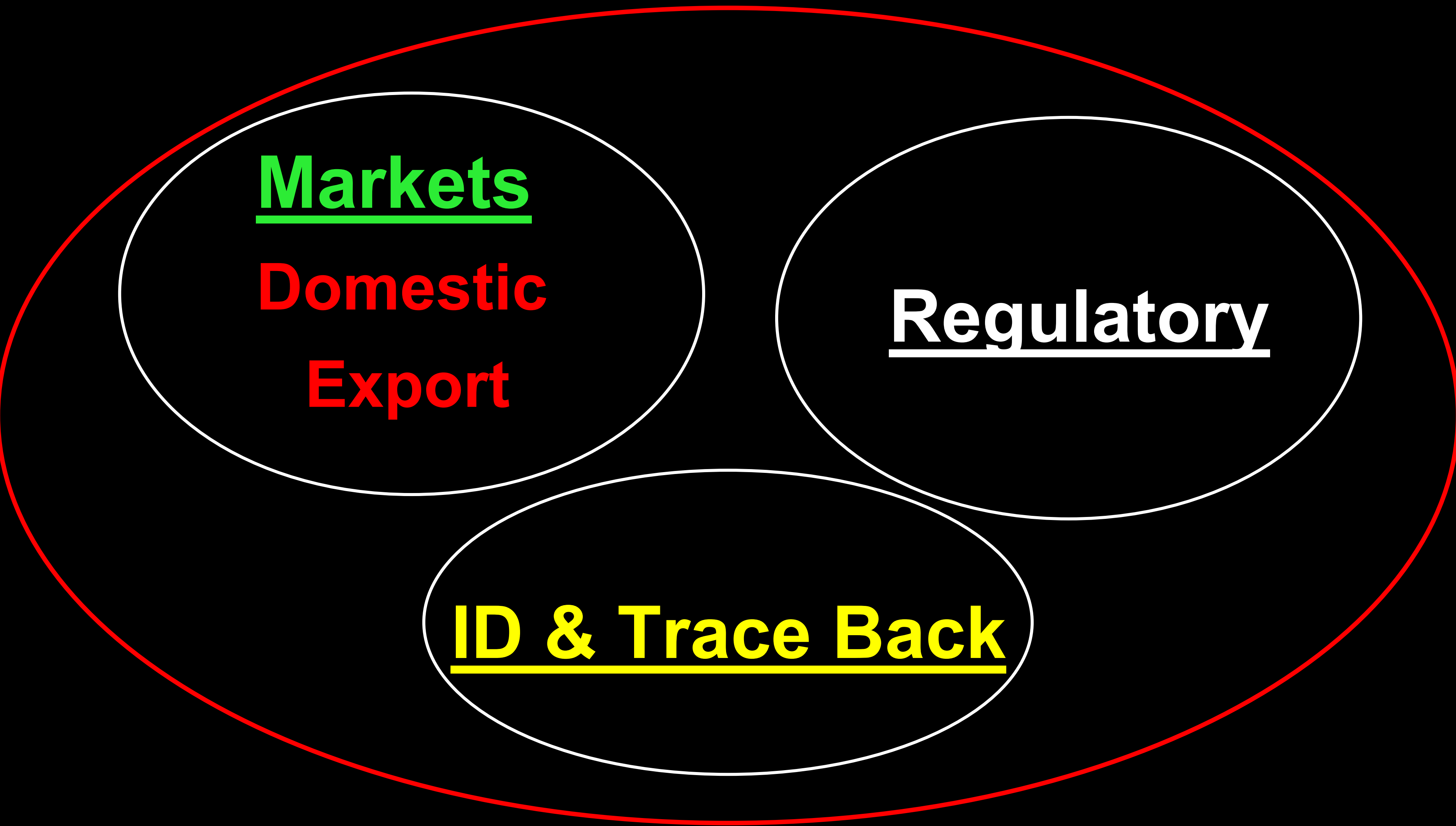
What is the current cost to packers?

Could range from $100 to $200 per head.

BSE Leads to Change



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The beef industry is at the forefront of tremendous structural change.

That will likely lead to a . . . .

Downsized,

Decentralized,

Regionally focused industry

Marketing to well-defined markets and . . . . .

Aligned to a . . . . .

Source verified, traceable, supply of cattle

In other words, ...

Closed beef systems, harvesting source-verified, quality cattle will be the rule, not the exception.

These closed beef systems will foster the opportunity for the industry to "produce the right product for the right market".

But, just as important, they will also . . . . . .

. . . . . Provide the best opportunity for the beef industry to manage the many critical issues it now faces,

. . . . .specifically, food safety and traceability.

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The industry is at the forefront of a transformation driven by food safety.

There are challenges, but there is also tremendous opportunity.

And this is why it is so important that only the BEST, AVAILABLE SCIENCE must prevail as the industry and government together tackle the critical challenges.

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